DFC INTELLIGENCE

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2024 Video Game Market Report and Forecast

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Overview

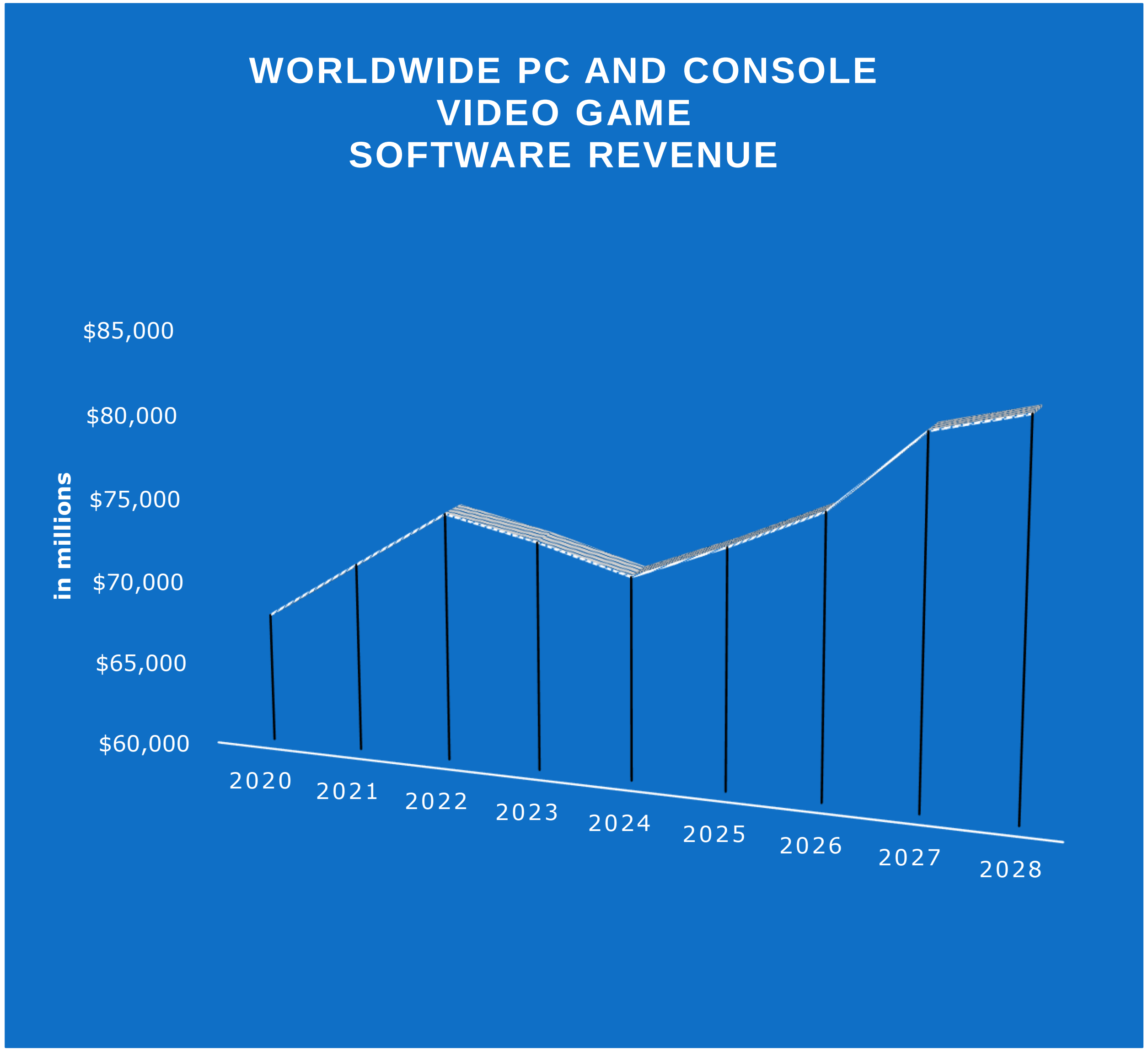
Intro

- This report summarizes major trends in the video game industry that will drive the market over the next five years
- These trends provide the core driving force behind DFC's market analysis and forecast
- The focus is on core PC and console gamers, not casual mobile game consumers

Major Trends

- Record market growth in the video game industry over next five years
- Consumer spending on video game hardware now exceeds software spending
- Nintendo will be the console market leader; Microsoft or Sony will struggle
- Revenue from add-on content for core games will exceed new full game revenue
- Large developers will focus on live service games creating opportunities for smaller studios
- The biggest battle among major companies will be over control of distribution

Record Growth After 2 Year Decline



Record Growth During Covid

- Record growth from 2020 to 2022 with PC and console video games reaching $75 billion in 2022

Two-Year Revenue Decline

- Industry declined in 2023 and 2024 with revenue for 2024 expected to be $72 billion

Product Delays and Layoffs

- Primary factors were product delays accompanied by large scale layoffs and cutbacks

Decline Was Relatively Modest

- The actual decline was not that bad at only 4% from 2022 to 2024, but it was the first time overall software revenue declined since 2009.

Record Growth Projected

- Industry is expected to start a period of record growth in 2025 with PC and console video game software revenue reaching $83 billion by 2028.

Mobile Games Not Included

- NOTE: This does not include mobile games which third-party market trackers like Sensor Tower estimate at about $75 billion in revenue

Why Did the Market Decline in 2023-24?

Stay and Play

- During Covid consumers stayed at home and played more video games
- Revenue was artificially inflated 2020 to 2022

People Leave Home

- Post-Covid consumers started to spend heavily on things that had been restricted such as travel, dining and outdoor entertainment.
- Less time/money allocated to games

Product Delays

- Covid disrupted normal work patterns as developers had to work remotely
- Many major software releases fell behind schedule
- Hardware products, especially console systems, were in short supply

Hardware and Software Out of Sync

- Hardware manufacturing returned to normal but major new software releases were delayed
- Without big new games hardware sales disappointed

Increased Turnover

- Companies added employees in 2020-2022 to compensate for both increased demand and decreased productivity
- As products were delayed companies were forced to lay off employees resulting in further disruption

All Major Console Systems Miss Forecasts

- Nintendo Switch reaches end of life cycle
- PlayStation 5 does not have new products to drive next tier of consumers to purchase
- Xbox Series X/S had weaker than expected sales

Why Is The Market Expected to Start Soaring in 2025?

Outdoor Activities are Expensive

- Inflation has created a more cost-conscious consumer
- Spending on travel, dining, sports and music events, and other expensive outdoor activities is slowing

New Hardware Systems

- Nintendo is expected to launch new console system in 2025 and it is projected to be a major market driver
- Nvidia has new generation of graphic cards to drive PC upgrade cycle

Video Games Are Low Cost

- Compared with other forms of entertainment video games are a great value
- For the price of taking the family to an amusement park for a day, consumers can buy an entire video game system that provides years of entertainment.

Great Software Lineup

- Software releases for 2025 are looking strong
- Grand Theft Auto 6 is expected to set records upon release (est Nov 2025)

Workflow Back to Normal

- Disruptions to the supply chain and workflow have eased
- Product manufacturing and development are back to a relatively normal level

Industry Continues on Strong Upward

- Video game industry has been on a strong upward curve ever since the 1980s
- Cyclical downturns have usually been small and short in duration
- The audience and per capita spending continues to grow

Hot New Products Will Drive Market Growth

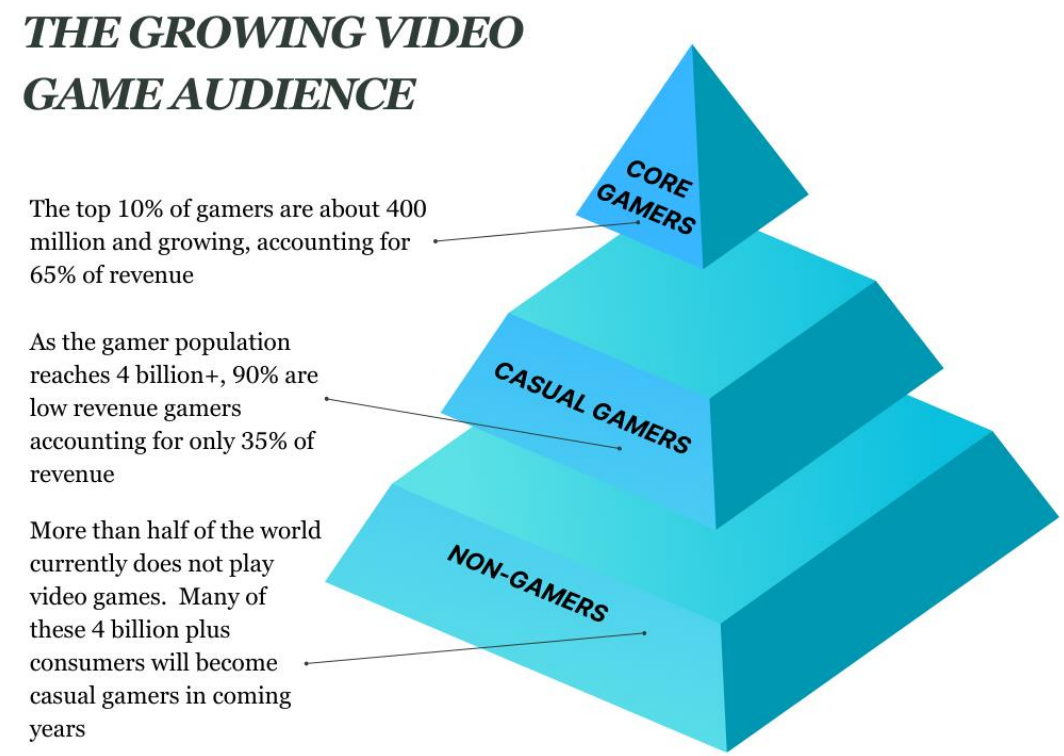
New Products = Consumer Excitement & Spending

- **Big new products drive growth across the ecosystem as consumers buy accessories, subscribe to services and play more**
- **Pent-up demand: There have been no new console launches since 2020**
- **Large publishers focused on ongoing live service games will generate revenue via increased consumer engagement**
- **Overall, 2025 is also shaping up to be one of the best years ever for new game releases**

The Future is Looking Bright

- **2025 is expected to see the launch of two of the biggest products ever: a new Nintendo system and Grand Theft Auto 6**
- **2026-2028 will see new console systems from Sony and Microsoft**
- **The growing attraction of high-end gaming-on-the-go with portable PC and console systems is a major spending driver as it expands the potential audience and enables anytime/anywhere play**
- **Core audience continues to expand with higher revenue per user**

4 Billion Worldwide Video Game Consumers!



In 2027 DFC Forecasts Worldwide Game Population to Hit 4 Billion
- In 2024, 3.8 billion people play video games. This is expected to reach 4 billion in 2027, nearly half the world population

Many Consumers Have Low Monetization
- Many consumers play only on mobile devices and account for limited revenue per user

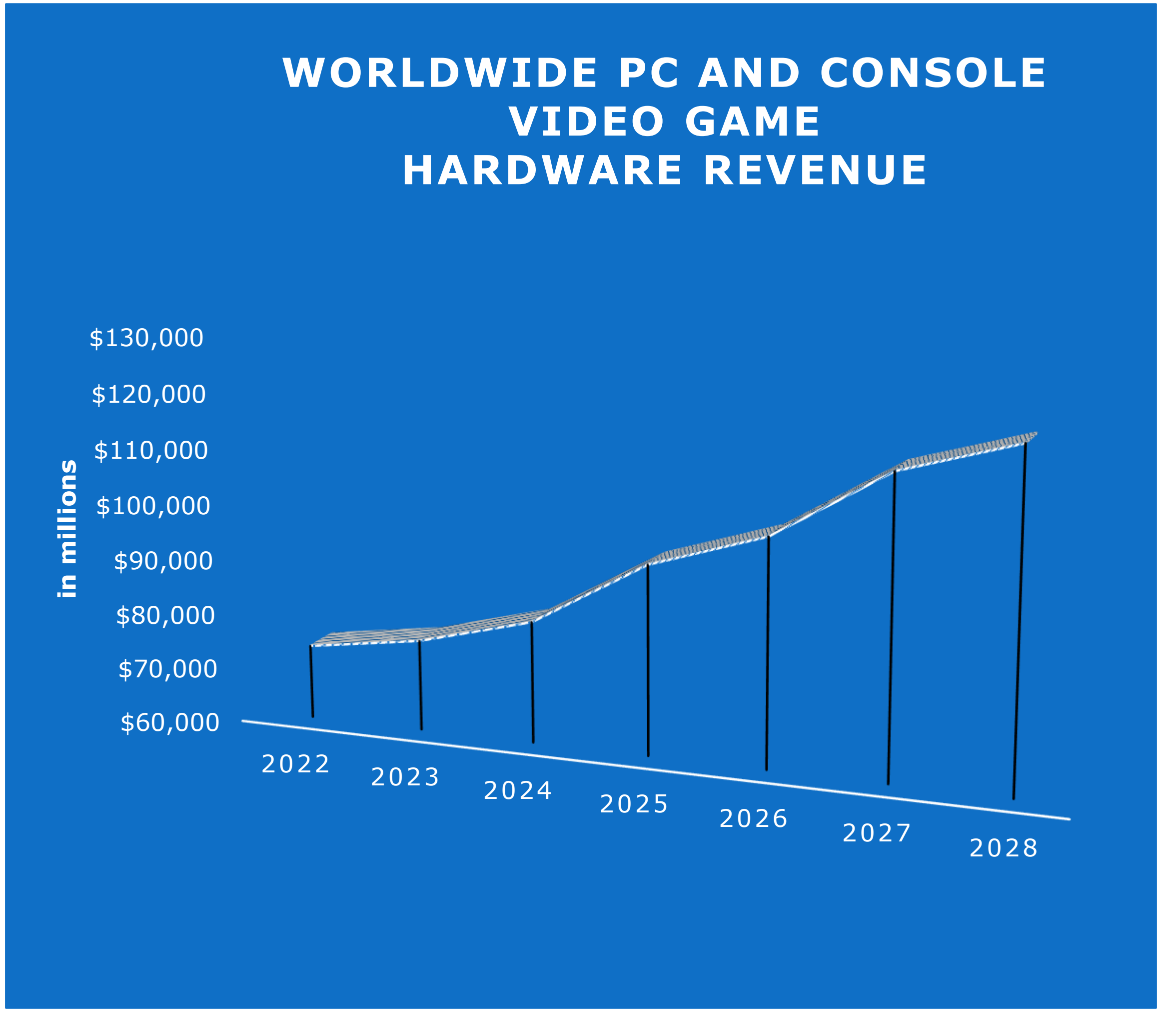
Top 10% of Game Consumers Account for 65% of Revenue
- The top 10% of game consumers account for 65% of video game revenue and the bulk of revenue in PC and console games

Core/PC Console Gamers Have High Revenue Per User
- Revenue from core console and PC gamers is over $300 per user per year. Revenue from the bottom 90% of gamers revenue averages only about $20 per user.

Gamers Move Down the Funnel
- A large portion of growth is from existing gamers spending more per user and moving into higher spending segments

Still Half the World to Reach!
- About half the world population represents potential new gamers. Video games have a long way to go before they are as ubiquitous as TV.

Video Game Hardware



Consumers Spend More on Hardware

- In 2023 consumer spending on video game hardware and accessories passed spending on PC and console video game software

Hardware Spending Will Continue to Soar

- The trend of more spending on hardware than software is expected to accelerate.

Game Hardware Revenue Reaches $120 Billion

- By 2028 video game hardware revenue is expected to reach $120 billion versus $83 billion for PC and console game software and services

High-End PC Game Hardware Drives Consumer Market

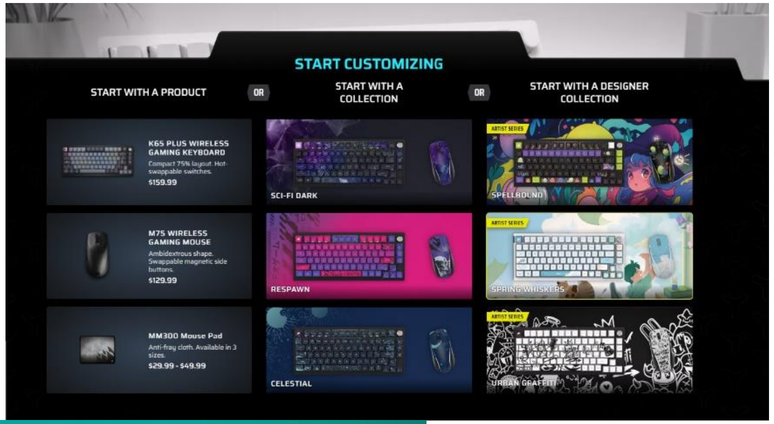
- In addition to game console systems, game hardware includes desktop PCs, laptop PCs, graphics cards, portable devices (but not smartphones) and various accessories

- **Multiple Device Households Are a Key Driver**
  Not only does an average household have multiple game devices but increasingly each household member has multiple devices

High-End Portable Game Devices Will Grow

- The ability for a consumer to play their game library anytime, anyplace, anywhere continues to accelerate

Hardware Spending Growth Factors



Splurging on High-End Hardware
- The aging of the video game consumer is resulting in increased sophistication around hardware purchases

Quality is Key
- Cheap low-cost products will always be around but a larger number of consumers are seeking quality products and will pay extra for high-end

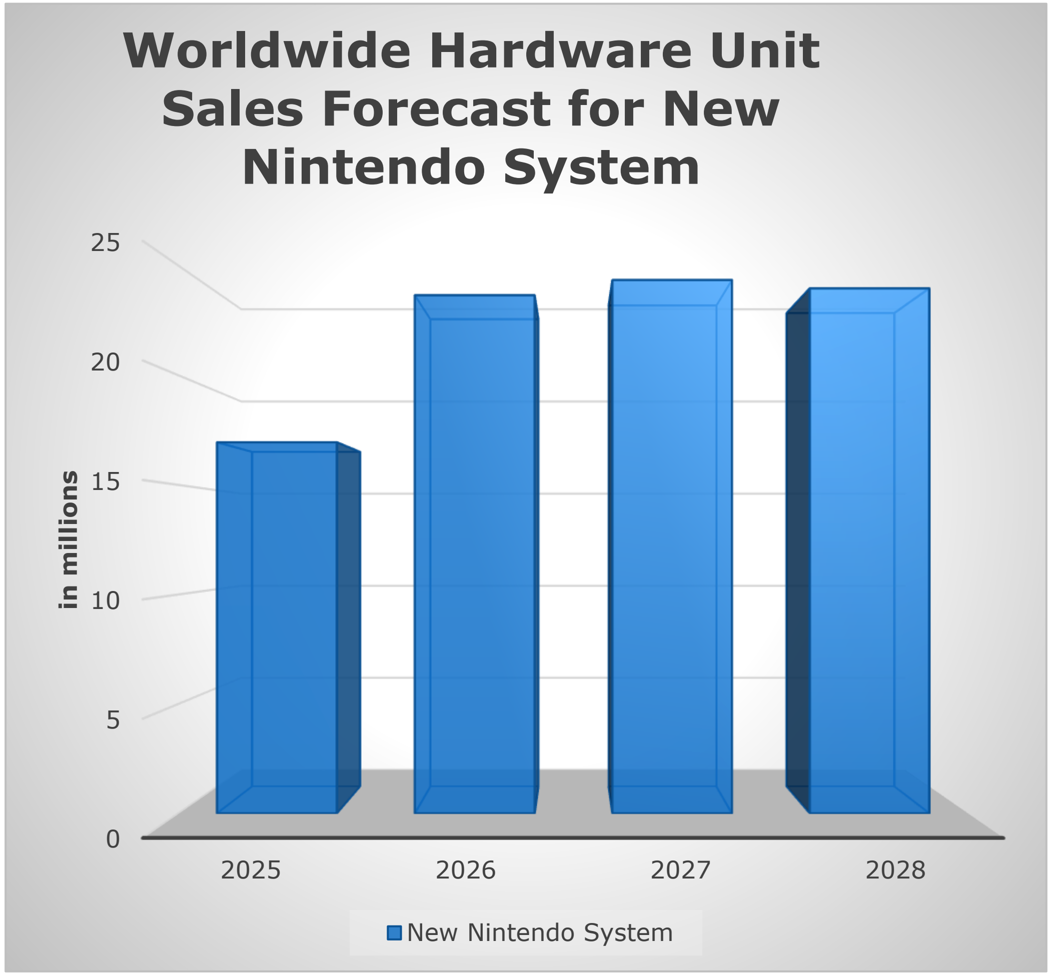
Video Game Consoles Represent Affordable Entertainment
- Game consoles cost less than a new phone and consumers are willing to purchase multiple devices per household so everyone can have their own system

Gaming Hardware is a Status Symbol
- High-end PC gaming rigs are now a status symbol. An expensive game setup is a lower cost hobby compared to activities like sports cars, arts/antique collecting, travel, skiing, golf etc

Game Hardware Accessories Are A Must Have
- Controllers, mice, keyboards, headsets can cost hundreds of dollars and consumers are increasingly willing to spend that money even with wide availability of much lower cost alternatives

Celebrity Gamers and Influencers
- The rise of esports and gamer influencers has increased awareness of the importance of hardware and brand marketing

A New System From Nintendo



Successor to Switch Launches in 2025

- Price point, features and launch date are unknown but DFC is estimating a spring timeframe for launch (Switch was March 2017)

New System Expected to Do Well

- Nintendo has a solid business with a large core consumer base to drive sales at launch. DFC expects significantly stronger launch sales than for original Switch in its first years.

Stronger Launch But Hard to Beat Switch 2020 Sales

- Switch launched in 2017 but was slower out of the gate. The system had record sales of 27 million units in 2020.

Portability is Key

- Portable nature of Switch was a game changer and resulted in households buying multiple units

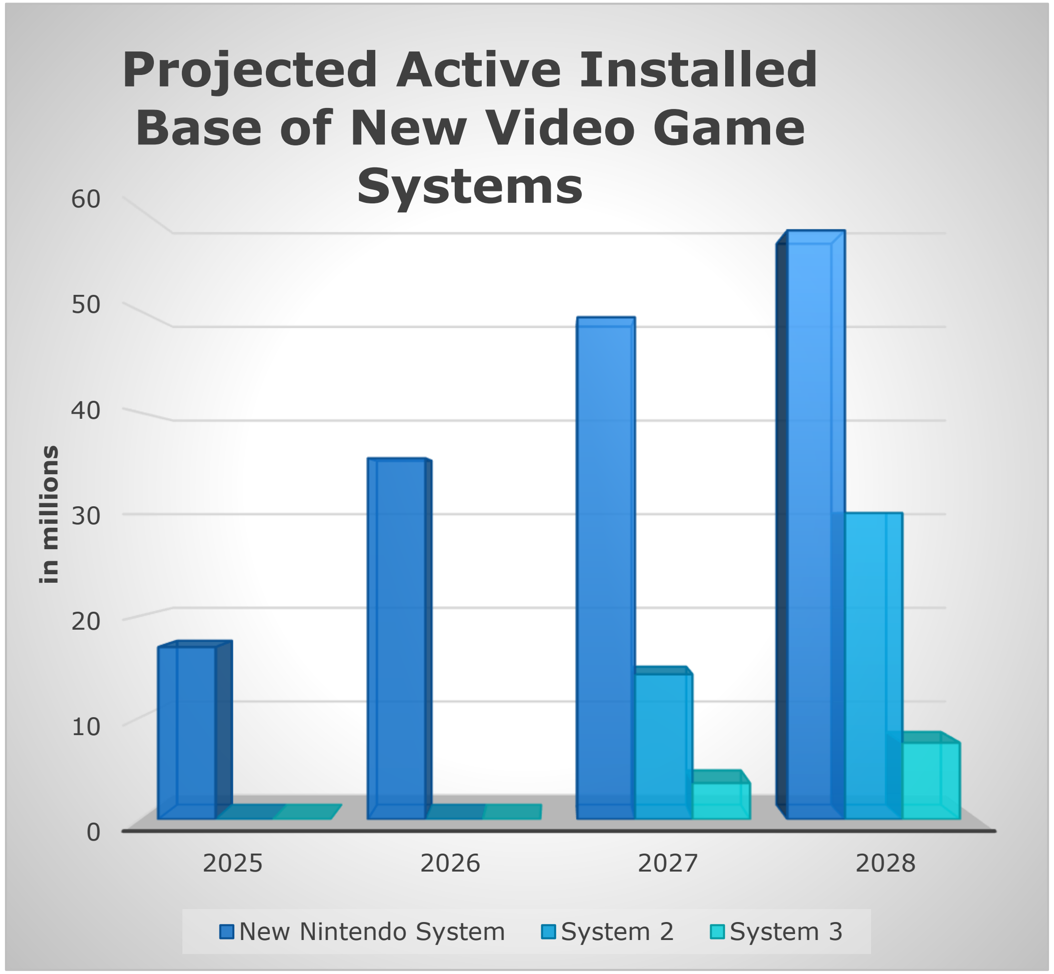
It Has Been a Long Wait for New Hardware

- The eight-year period between major console product launches will be a record in the modern video game era. Consumers are EAGER!

Manufacturing Enough Units Will Be Challenge

- Demand is there but Nintendo may struggle with manufacturing capacity. DFC forecasts Year 1 sales of 17 million units IF Nintendo can deliver supply

Who Will Be Nintendo's Biggest Competitor?



New Systems From Sony and Microsoft

- Sony and Microsoft should release new console systems by 2028. However, it is likely only one system will be successful.

Active Installed Base is Key Measure

- Projected Active Installed Base (AIB) measures how many systems are in use and accounts for retirement. With an early launch Nintendo will have a large cumulative lead.

Too Early to Know Which Other System Will Succeed

- Price point, release date and basic features are all hypothetical. A system that launches in 2026 may have a major advantage. DFC does scenario planning for many hypotheticals.

Sony Hardware Has Slight Edge

- A new Sony system (PlayStation 6?) should have an advantage because of loyal base and strong Sony IP

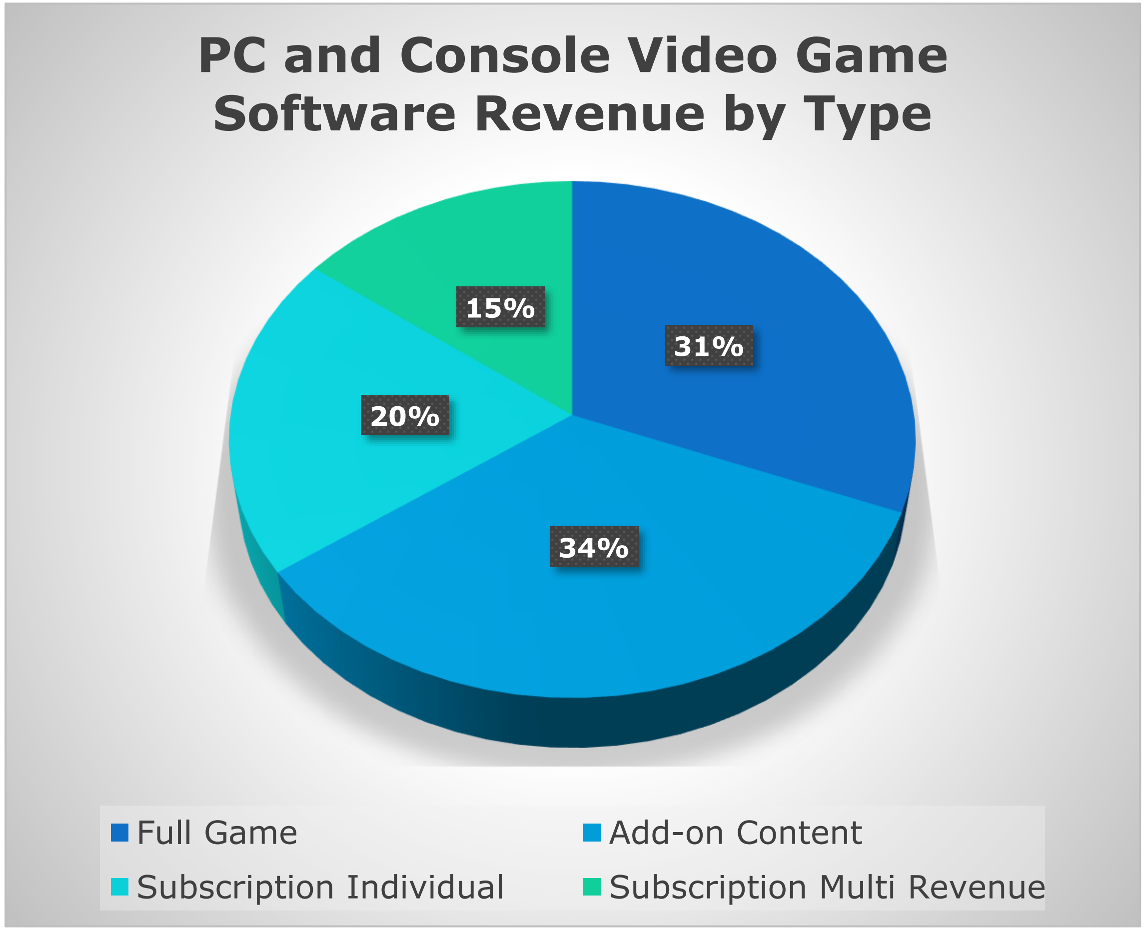
Microsoft is Largest Software Publisher

- Microsoft failed with Xbox Series X/S but has made major acquisitions to become world's largest software publisher. Microsoft has option of focusing on software and distribution models over hardware.

Will Either Sony or Microsoft Offer Portability?

- The portability factor made Switch and drove multiple hardware unit sales per household. Will a new system from Sony and Microsoft have a portable feature?

Revenue Now Comes In Many Forms



Successful Games Drive Additional Sales Opportunities
- Add-on content consists of revenue from products that are an extension to an existing game including expansions, DLC, cosmetics and virtual items

Add-On Content Passes Full Game Revenue
- Revenue from add-on content has been the leading business model in mobile games. PC and console software revenue from add-on content (34%) now exceeds revenue from full-game content (31%).

Subscriptions Are Another Revenue Driver
- Consumers increasingly are subscribing to game subscription services and this now accounts for 35% of revenue.

Individual Game Subscriptions
- Subscriptions to individual games such as World of Warcraft or Fortnite Crew generate 20% of software revenue.

Multi-Game Subscriptions Not As Popular
- The appeal of Netflix-like game services such as Microsoft Game Pass has not been as strong as anticipated but still accounts for 15% of software revenue

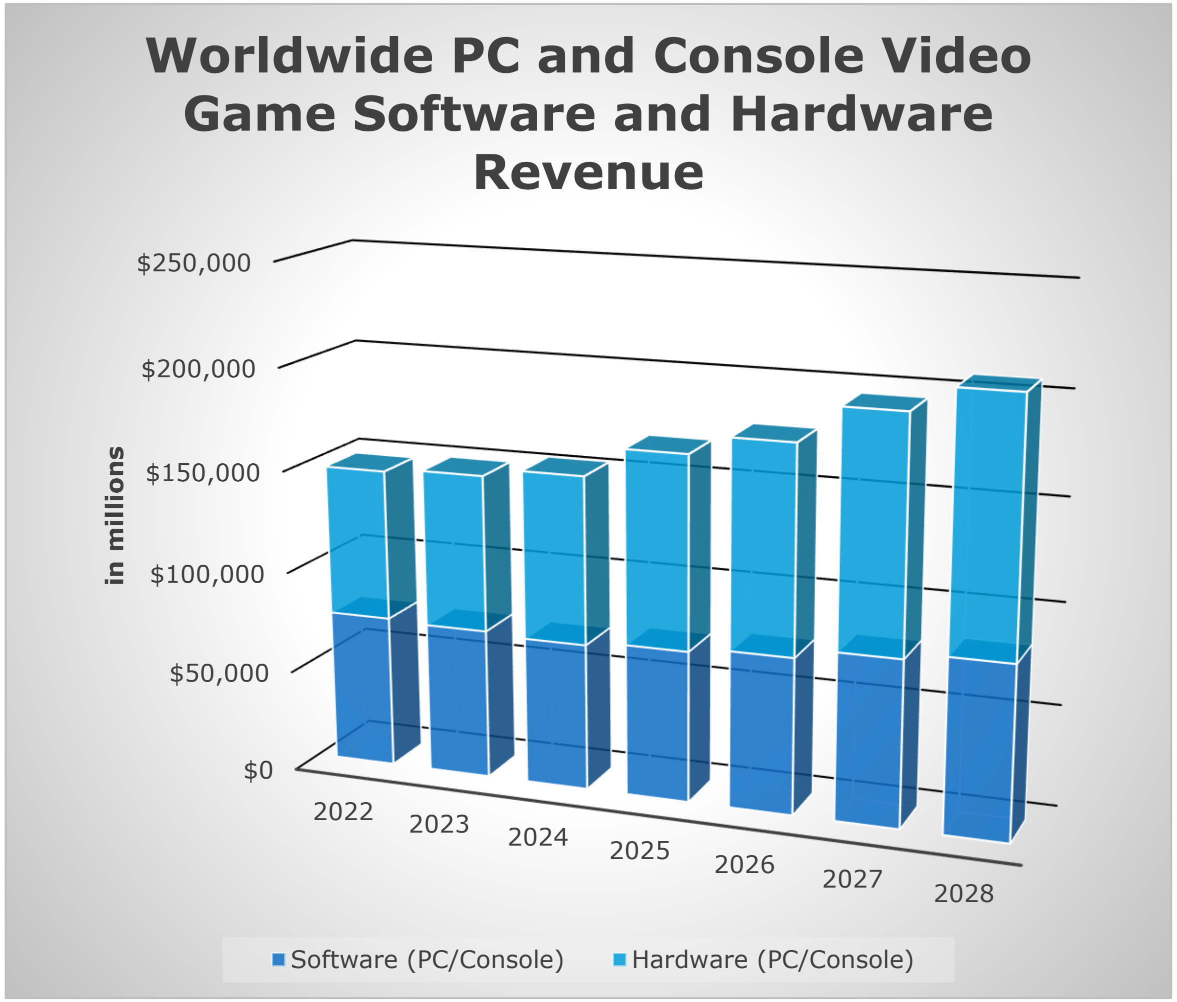
Full Game Revenue = Opportunity for Smaller Players
- Large publishers focus on major franchises that generate revenue from add-on content and subscriptions. This is creating a huge opportunity for smaller companies to release traditional full games.

Leading Video Game Companies Focus On Distribution

TOP GAME COMPANIES

Tier One	Tier Two	Tier Three
amazon	Google	EA
Microsoft	SONY	EPIC GAMES
Nintendo	Tencent 腾讯	T2 TAKE-TWO INTERACTIVE
NVIDIA	VALVE	

Conclusion: Soaring Growth



- **By 2028 sales of PC and console game software and hardware will exceed $200 billion a year**
- **When 2028 mobile games revenue is added, combined industry revenue should exceed $300 billion.**
- **Hardware sales have passed software revenue, and that trend is accelerating**
- **The global audience will pass 4 billion by 2028 but the top 10% of gamers will account for 65% of revenue when mobile games are included**
- **The game industry is still young and has a growing audience, including higher income consumers.**

The Maturing Video Game Consumer

As Kids Grow Up They Continue to Buy Video Games
- Most consumers are introduced to video games in their childhood and we are finding they continue with video games throughout adulthood.

The Nintendo Generation Turns 50
- The first Nintendo NES system was launched in 1985. In 2025 a 10-year-old who played the first NES will turn 50.

The Video Game Industry is Young
- The Baby Boomer generation and a large portion of people over 50 did not grow up playing video games. Generation X will have much higher per capita spending as they age

The Demographics Naturally Increase Every Year
- In 2035 the 50-year-old Generation X consumer will be 60 and still playing video games. Meanwhile a generation of new consumers has been born.

You Do Not Have to Play Video Games to Spend Money on Games
- Adult consumers generally do not have as much time to play video games but they still spend money on the hardware and games.

Hardware as Status Symbol
- Sales of high-end hardware is driven by the growing number of older consumers with larger disposable income

Top Game Distributors

- **Distribution is the most crucial driver of success in the game space**
- **Distributors control getting product into consumer hands**
- **Without strong distribution channels publishers will not be able to get product into consumer hands**
- **Console hardware manufacturers have significant distribution control**
- **Google and Apple are major mobile distributors**
- **Valve's Steam service leads in PC games**
- **Battles for control of distribution among major players will be the MOST important trend to watch in the game space**

Major Video Game Distributors
Amazon
Apple
Baidu
Epic
Facebook
GameStop
Google
Microsoft
Netease
Nintendo
Sony
Tencent
Valve
Walmart

This is a sample list of the top game distributors. Note revenue from game distribution will exceed publishing revenue and market analysis requires careful separation of roles to avoid double counting

About DFC Intelligence

DFC Intelligence provides a full spectrum of coverage of gaming for discerning clients. Our analysis and forecasts are sought out by companies who want an honest and realistic perspective on markets vs hype, inflated numbers and marketing speak. We support companies to identify the real market opportunities to maximize capital expenditures and pursue sound and profitable strategies.

Contact us at info@dfcint.com www.dfcint.com

Games

Mobile, console and PC games and subscription services broken out by market, user, genre and engine

Platforms

Shipment data and forecasts of gaming PCs, laptops, PC hardware and mobile devices. Components too

Accessories

Breakouts by headsets, keyboards, mice, controllers and other hot accessories

DFC INTELLIGENCE

DFC Intelligence is an industry analyst firm covering the video game industry since the mid-1990's

We provide insightful, realistic and actionable market analyses, forecasts, and user segmentations to a global roster of companies operating within the video game industry as well as investors looking for quality insights into where the opportunities and risk will be found.

DFC Intelligence has earned a reputation within the video game space as a firm that brings objectivity and a healthy dose of realism to the market segments it covers.

We offer full market subscription programs, segment specific services, market reports, targeted forecasts and customized client solutions.

Reach out to us at info@dfcint.com to schedule an introduction to our services.

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- **Deep dive user segmentation and analysis**
- **Key trends and factors driving or impacting market growth**
- **Analyst inquiry and one-to-one engagements to address key client questions and initiatives, or hot takes on what DFC thinks about announcements, trends and more**
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